HSBC BANK CANADA
FIRST QUARTER 2006 REPORT TO SHAREHOLDERS

- Net income attributable to common shares was C$116 million for the quarter ended 31 March 2006, an increase of 7.4 per cent over the same period in 2005.
- Return on average common equity was 20.7 per cent for the quarter ended 31 March 2006 compared with 20.9 per cent for the same period in 2005.
- The cost efficiency ratio was 53.1 per cent for the quarter ended 31 March 2006 compared with 53.0 per cent for the same period in 2005.
- Total assets were C$52.3 billion at 31 March 2006 compared with C$45.0 billion at 31 March 2005.
- Total funds under management were C$21.8 billion at 31 March 2006 compared with C$18.1 billion at 31 March 2005.

First Quarter 2006 Management's Discussion and Analysis (MD&A)

Our MD&A is dated 28 April 2006. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). Certain prior period amounts have been reclassified to conform to the presentation adopted in the current period.

Financial Highlights

Figures in C$ millions (except per share amounts)	*Quarter ended* ***31 March 2006***	*31 December 2005*	*31 March 2005*
Earnings			
Net income attributable to common shares	**116**	132	108
Basic earnings per share	**0.24**	0.27	0.22
Performance ratiosᶲ **(%)**			
Return on average common equity	**20.7**	23.8	20.9
Return on average assets	**0.92**	1.06	0.99
Net interest margin	**2.36**	2.36	2.44
Cost efficiency ratio	**53.1**	50.0	53.0
Non-interest revenue:total revenue ratio	**37.0**	34.4	37.8
Credit information			
Gross impaired loans	**153**	130	146
Allowance for credit losses			
– Balance at end of period	**325**	326	343
– As a percentage of gross impaired loans	**212 %**	251 %	235 %
– As a percentage of loans outstanding	**0.99 %**	1.01 %	1.15 %
Average balancesᶲ			
Assets	**50,986**	49,605	44,180
Loans	**32,252**	32,387	28,841
Deposits	**40,022**	39,006	34,704
Common equity	**2,276**	2,204	2,098
Capital ratiosᶲᶲ **(%)**			
Tier 1	**9.0**	9.0	8.5
Total capital	**11.3**	11.2	10.8
Total assets under administration			
Funds under management	**21,796**	20,453	18,084
Custodial accounts	**8,564**	7,594	5,797
Total assets under administration	**30,360**	28,047	23,881

ᶲ *These are non-GAAP amounts or non-GAAP measures. Please refer to the discussion outlining the use of non-GAAP measures in this document in the 'GAAP and related non-GAAP measures used in the MD&A' section on page 9.*

ᶲᶲ *Calculated in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions Canada.*

Financial Commentary

Overview

HSBC Bank Canada recorded net income attributable to common shares of C$116 million for the quarter ended 31 March 2006, an increase of C$8 million, or 7.4 per cent, from C$108 million for the first quarter of 2005. Compared to the fourth quarter of 2005, net income attributable to common shares was C$16 million lower as net income in the fourth quarter of 2005 benefited from a C$14 million reversal from the general allowance for credit losses and a C$14 million adjustment to other expenses, both before income taxes. Excluding these items and the related income tax adjustments, net income attributable to common shares would have been C$107 million in the fourth quarter of 2005.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: "HSBC Bank Canada is off to a good start in fiscal 2006, with solid year-over-year revenue and net income growth. The increases were broad based and reflected solid contribution from each of our customer groups. Net interest income, as well as non-interest revenue, was higher across our businesses. However, the competitive environment continues to impact our net interest margin. In growing our business, we have actively managed to contain our costs, which has resulted in a stable cost efficiency ratio. Lastly, the stable credit environment in Canada has resulted in continued low provision for credit losses.

"Our focus for the rest of this year is to achieve sustainable revenue growth by retaining and deepening existing customer relationships and acquiring new customers. We will do this by continuing to listen to our customers and introducing new products to meet their needs, while investing in our brand and improving our sales process. We will continue to invest in our businesses and reallocate resources to areas of growth."

Net interest income

Net interest income for the first quarter of 2006 was C$266 million compared with C$237 million in the same quarter of 2005, an increase of C$29 million, or 12.2 per cent. The increase was driven by growth in assets across all of our customer groups. Average loans for the quarter ended 31 March 2006 were C$32.3 billion compared with C$28.8 billion for the same period in 2005. This was partially offset by continued competitive pressures and the interest rate environment. As a result, net interest margin, as a percentage of average interest earning assets, was 2.36 per cent for the quarter ended 31 March 2006 compared with 2.44 per cent for the same period in 2005. Additionally, the relatively flat yield curve impacted income from securities.

Net interest income in the first quarter of 2006 was C$3 million lower compared with C$269 million in the fourth quarter of 2005. The net interest margin, as a percentage of average interest earning assets, was the same at 2.36 per cent. Net interest income in the first quarter of 2006 was negatively impacted by securitisations of residential mortgages and personal lines of credit totalling C$1.2 billion in the latter part of the fourth quarter of 2005 and C$0.7 billion early in the first quarter of 2006. This was partially offset by higher yields in Commercial Banking.

Financial Commentary *(continued)*

Non-interest revenue

Non-interest revenue was C$156 million for the first quarter of 2006 compared with C$144 million in the same quarter of 2005, an increase of C$12 million, or 8.3 per cent. Growth was broad-based, led by higher revenue from foreign exchange as the Canadian dollar volatility with the US dollar spurred transaction volumes. Investment administration fees were higher as funds managed in our wealth management businesses continued to grow. An increase in credit fees was driven by continued strength in commercial lending activities.

The increase in non-interest revenue from the fourth quarter of 2005 was C$15 million, or 10.6 per cent. Capital market fees were significantly higher due to higher revenue from increased customer trading of securities. Gains from our investment in private equity funds were higher in the first quarter of 2006. Income from securitisation was higher due to higher gains on sales in the first quarter of 2006.

Non-interest expenses

Non-interest expenses were C$224 million for the first quarter of 2006 compared with C$202 million in the same quarter of 2005, an increase of C$22 million, or 10.9 per cent. As a result, the cost efficiency ratio was slightly higher at 53.1 per cent compared with 53.0 per cent for 2005. Salaries and employee benefits expenses were higher in 2006 due largely to increased variable compensation costs, and a higher employee base. Other non-interest expenses were higher in 2006 due to growth in the business and a net reduction in expense in the first quarter of 2005 from successful resolution of certain commodity tax issues. These were partially offset by lower expenses in 2006 due to discontinuation of the guarantee by HSBC Holdings plc for new deposits after 30 June 2005.

Non-interest expenses were C$19 million higher than the fourth quarter of 2005 and the cost efficiency ratio was higher compared with 50.0 per cent. Salaries and benefits were higher due to higher variable compensation costs, and pension and other benefits costs, partially offset by lower termination expenses. Other expenses were higher due largely to a year-to-date reduction in the guarantee fee expense for 2005 recorded in the fourth quarter. This was partially offset by the higher media spend in the fourth quarter of last year.

Credit quality and provision for credit losses

The provision for credit losses was C$6 million for the first quarter of 2006 compared with C$8 million in the first quarter of 2005, and C$6 million for the fourth quarter of 2005. The provision in the fourth quarter of 2005 was net of a C$14 million reversal from the general allowance for credit losses. The relatively low provisions reflect the continued stable asset quality and credit performance of the loan portfolio arising from low corporate default rates resulting from strong economic conditions in Canada and the United States. We continue to closely monitor sectors that may be at risk if certain economic conditions have an adverse impact on companies associated with these areas. We actively manage our risks and level of exposure within these sectors.

Gross impaired loans were C$153 million, C$23 million, or 17.7 per cent, higher compared with C$130 million at 31 December 2005, and C$7 million, or 4.8 per cent, higher compared with C$146 million at 31 March 2005. Total impaired loans, net of specific allowances for credit losses, were C$97 million at 31 March 2006 compared with C$73 million at 31 December 2005 and C$85 million at 31 March 2005. The general allowance for credit losses remained at C$269 million compared with 31 December 2005 and was down from C$282 million at 31 March 2005. The total allowance for credit losses, as a percentage of loans outstanding, was 0.99 per cent at 31 March 2006 compared with 1.01 per cent at 31 December 2005 and 1.15 per cent at 31 March 2005.

Financial Commentary *(continued)*

Income taxes

The effective tax rate in the first quarter of 2006 was 35.1 per cent compared with 34.1 per cent in the first quarter of 2005 and 30.1 per cent in the fourth quarter of 2005. The tax rate in the fourth quarter of 2005 was lowered as a year-to-date credit was recorded on the resolution of deductibility of the guarantee fee expense for the years 2002 to 2005.

Balance sheet

Total assets at 31 March 2006 were C$52.3 billion, an increase of C$3.1 billion from 31 December 2005, and C$7.3 billion from 31 March 2005. We continued to grow our lending portfolio across all customer groups. Commercial loans and bankers' acceptances climbed C$1.1 billion since the end of 2005 on the continued strong economy, primarily in western Canada. Residential mortgages increased C$0.3 billion, after securitisation of C$0.2 billion in the quarter, on continued strength in housing markets. Consumer loans decreased C$0.3 billion, which was after a securitisation of C$0.5 billion of personal lines of credit in the quarter. Our securities portfolio increased by C$1.7 billion in the quarter, primarily in Government of Canada securities.

Total deposits increased C$1.8 billion to C$40.4 billion at 31 March 2006 from C$38.6 billion at 31 December 2005 and were C$4.8 billion higher compared with C$35.6 billion at 31 March 2005. The growth was primarily from higher cash management activity from our corporate customers. Other liabilities increased C$0.8 billion largely from an increase in shorted positions of securities.

Total assets under administration

Funds under management were C$21.8 billion at 31 March 2006 compared with C$20.5 billion at 31 December 2005 and C$18.1 billion at 31 March 2005. Including custody and administration balances, total assets under administration were C$30.4 billion compared with C$28.0 billion at 31 December 2005 and C$23.9 billion at 31 March 2005.

Funds under management in the first quarter of 2006 benefited from strong sales and buoyant equity markets, particularly in Canada, which were driven by continued increases in the prices of natural resources. Custodial accounts increased by C$1.0 billion due to increased institutional and custody business in our trust company operations.

Capital management

The tier 1 capital ratio was 9.0 per cent and the total capital ratio was 11.3 per cent at 31 March 2006. These compare with 9.0 per cent and 11.2 per cent, respectively, at 31 December 2005 and 8.5 per cent and 10.8 per cent, respectively, at 31 March 2005.

In addition to net income, regulatory capital increased in the first quarter of 2006 as subordinated debentures increased C$140 million as a redemption of a C$60 million issue was offset by a new C$200 million issue. This was partially offset by dividends declared.

Financial Commentary *(continued)*

Risk management

Our risk management policies and practices are unchanged from those outlined in pages 18 to 22 of our 2005 Annual Report and Accounts.

Related party transactions

Our related party transaction policies and practices are unchanged from those outlined in page 26 of our 2005 Annual Report and Accounts. All transactions with related parties continued to be priced and accounted for as if they were provided in an open market on an arm's length basis or, where no market exists, at fair value.

Financial instruments

During the normal course of our business, we make extensive use of financial instruments, including funding loans, purchasing investments, accepting deposits and entering into various derivative instruments. Financial instruments are generally carried at cost or amortized cost, except those held for trading purposes, which are carried at their estimated fair value. There was no change to the basis of calculating the fair value of financial instruments from 31 December 2005, and no significant changes in fair value of financial instruments that arose from factors other than normal economic, industry and market conditions.

Off-balance sheet arrangements

We enter into a number of off-balance sheet arrangements in the normal course of operations. The most significant off-balance sheet arrangements we enter into are guarantees and letters of credit, and derivatives, which were described on page 14 of our 2005 Annual Report and Accounts. There were no significant changes to these off-balance sheet arrangements from 31 December 2005.

Accounting policies and critical accounting estimates

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) using the same accounting policies and methods of computation as were used for our consolidated financial statements for the year ended 31 December 2005 and were outlined on pages 39 to 73 of our 2005 Annual Report and Accounts. There were no changes to our significant accounting policies from 31 December 2005.

The key assumptions and bases for estimates that we have made under GAAP, and their impact on the amounts reported in the interim consolidated financial statements and notes, remain substantially unchanged from those described on pages 12 to 14 of our 2005 Annual Report and Accounts.

Financial Commentary *(continued)*

Outstanding shares and securities

(amounts are in C$ millions)	*At 28 April 2006* Number	Amount
HSBC Canada Asset Trust Securities (HaTS™) [1]		
– Series 2010[2]	200,000	200
– Series 2015[3]	200,000	200
		400
Preferred Shares – Class 1		
– Series C[4]	7,000,000	175
– Series D[5]	7,000,000	175
		350
Common shares	488,668,000	1,125

1 *Reported in non-controlling interest in trust and subsidiary in the Consolidated Balance Sheet.*
2 *Cash distributions are non-cumulative and are payable semi-annually in an amount of C$38.90 per unit.*
3 *Cash distributions are non-cumulative and are payable semi-annually in an amount of C$25.75 per unit.*
4 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.31875 per share.*
5 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.3125 per share.*

Further details regarding features of our securities and shares are disclosed in notes 9 and 11 of our 2005 Annual Report and Accounts.

Payable dates for our HaTS in 2006 are 30 June and 31 December. The cash distributions are subject to approval by our Board of Directors.

Dividend record and payable dates for our preferred shares in 2006, subject to approval by our Board of Directors, are:

Record Date	Payable Date
March 15	March 31
June 15	June 30
September 15	September 30
December 15	December 31

During the first quarter of 2006, we declared and paid C$60 million in dividends on our common shares.

Financial Commentary *(continued)*

Management's responsibility for financial information

A rigorous and comprehensive financial governance framework is in place at HSBC Bank Canada and our subsidiaries at both the management and board levels. Each year, our Annual Report and Accounts contains a statement signed by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. We filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators in March 2006 when we filed our Annual Report and Accounts and other annual disclosure documents. In those filings, our CEO and CFO certify, as required in Canada by Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in our annual filings and the effectiveness of our disclosure controls and procedures. Our CEO and CFO certify the appropriateness of the financial disclosures in our interim filings with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the period ended 31 March 2006, and that they are responsible for the design and maintenance of disclosure controls and procedures.

As in prior quarters, our audit committee reviewed this document, including the attached unaudited interim consolidated financial statements, and approved the document prior to its release.

A comprehensive discussion of our businesses, strategies and objectives can be found in Management's Discussion and Analysis in our 2005 Annual Report and Accounts, which can be accessed on our web site at www.hsbc.ca. Readers are also encouraged to visit the site to view other quarterly financial information.

The attached unaudited interim consolidated financial statements have not been reviewed by our external auditors.

Regulatory filings

Our continuous disclosure materials, including our interim and annual filings, are available on our web site at www.hsbc.ca, and on the Canadian Securities Administrators' web site at www.sedar.com.

Caution regarding forward-looking financial statements

This document may contain forward-looking statements, including statements regarding the business and anticipated financial performance of HSBC Bank Canada. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, technological change, global capital market activity, changes in government monetary and economic policies, changes in prevailing interest rates, inflation level and general economic conditions in geographic areas where HSBC Bank Canada operates. Canada is an extremely competitive banking environment and pressures on interest rates and our net interest margin may arise from actions taken by individual banks acting alone. Varying economic conditions may also affect equity and foreign exchange markets, which could also have an impact on our revenues. The factors disclosed above may not be complete and there could be other uncertainties and potential risk factors not considered here which may impact our results and financial condition.

Financial Commentary *(continued)*

GAAP and related non-GAAP measures used in the MD&A

We use both GAAP and certain non-GAAP measures to assess performance. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized measuring under GAAP and are unlikely to be comparable to similar measures used by other companies. The following outlines various GAAP or non-GAAP measures, which management regularly monitors, to more clearly indicate the derivation of the measure.

Return on average common equity – Average common equity is calculated using month end balances of common equity for the period.

Return on average assets – Average assets are calculated using average daily balances for the period.

Net interest margin – Calculated as net interest income divided by average interest earning assets. Average interest earning assets are calculated using average daily balances for the period.

Cost efficiency ratio – Calculated as non-interest expenses divided by total revenue.

Non-interest revenue:total revenue ratio – Calculated as non-interest revenue divided by total revenue.

Average balances – Average assets, loans, and deposits are calculated using daily average balances for the period. Average common equity is calculated using month end balances of common equity for the period.

Quarterly summary of condensed statements of income (unaudited)

	Quarter ended							
Figures in C$ millions	***31 March 2006***	*31 December 2005*	*30 September 2005*	*30 June 2005*	*31 March 2005*	*31 December 2004*	*30 September 2004*	*30 June 2004*
Net interest income	**266**	269	261	243	237	229	230	221
Non-interest revenue	**156**	141	145	140	144	143	126	130
Total revenue	**422**	410	406	383	381	372	356	351
Non-interest expenses	**224**	205	208	209	202	207	207	190
Net operating income	**198**	205	198	174	179	165	149	161
Provision for credit losses	**6**	6	7	6	8	22	10	20
Income before the under noted	**192**	199	191	168	171	143	139	141
Provision for income taxes	**65**	58	67	55	57	51	51	52
Non-controlling interest in income of trust	**7**	6	7	5	4	4	4	4
Income from continuing operations	**120**	135	117	108	110	88	84	85
Discontinued operations	–	–	–	–	–	–	–	4
Net income	**120**	135	117	108	110	88	84	89
Preferred share dividends	**4**	3	4	4	2	2	2	2
Net income attributable to common shares	**116**	132	113	104	108	86	82	87
Basic earnings per share (C$)†	**0.24**	0.27	0.23	0.21	0.22	0.18	0.17	0.18

† *Basic earnings per common share are not materially different from basic earnings per common share from continuing operations.*

The quarterly trends in revenue and expenses were disclosed in detail on pages 11 and 12 of our 2005 Annual Report and Accounts.

Review of Customer Group Results

Personal Financial Services

Income, before taxes and non-controlling interest in income of trust, for the first quarter of 2006 was C$32 million, compared with C$33 million for the same period in 2005. Total revenue was higher as net interest income benefited from growth in residential mortgages and consumer loans, and non-interest revenue was higher due to an increase in investment administration fees. However, this was dampened somewhat by continued pressure on pricing. Non-interest expenses were higher in 2006 due to investments in the business, which increased salaries and benefits, premises, and other expenses, and from a net reduction in the first quarter of 2005 on the resolution of commodity tax issues. These were partially offset by lower deposit guarantee fee expenses in 2006.

Income, before taxes and non-controlling interest in income of trust, was C$7 million lower compared with the fourth quarter of 2005. Net interest income was lower due to securitisations of residential mortgages and personal lines of credit totaling C$1.2 billion in the latter part of the fourth quarter of 2005 and C$0.7 billion early in the first quarter of 2006. Non-interest revenue was higher largely from increased customer trading revenue and higher investment administration fees. Non-interest expenses were higher due largely to investments in the business, and were partially offset by lower marketing costs in the first quarter of 2006. Additionally, a year-to-date reduction in deposit guarantee fee expenses was recorded in the fourth quarter of 2005.

Commercial Banking

Income, before taxes and non-controlling interest in income of trust, for the first quarter of 2006 was C$111 million, compared with C$100 million for the same period in 2005. Net interest income was higher due to continued growth in assets resulting from a strong economy across most of Canada. Non-interest expenses were higher due to investments in the business, which increased salaries and benefits, and other expenses, and a net credit in the first quarter of 2005 from resolution of commodity tax issues. These were partially offset by lower deposit guarantee fee expenses in 2006. Provision for credit losses were lower due to low corporate default rates resulting from the strong economy.

Income, before taxes and non-controlling interest in income of trust, was C$3 million higher compared with the fourth quarter of 2005. Total revenue was higher due largely from higher net interest income on growth in assets. Non-interest expenses were higher due largely to investments in the business, and were partially offset by lower marketing costs in the first quarter of 2006. Additionally, a year-to-date reduction in deposit guarantee fee expenses was recorded in the fourth quarter of 2005. Provision for credit losses were lower due to low corporate default rates resulting from the strong economy.

Corporate, Investment Banking and Markets

Income, before taxes and non-controlling interest in income of trust, for the first quarter of 2006 was C$49 million, compared with C$38 million for the same period in 2005. Net interest income was higher due to continued growth in assets on a strong economy across most of Canada. Non-interest revenue was higher due largely to increased foreign exchange revenue resulting from higher volumes of transactions and hedging activity undertaken by our customers due to continued volatility between the Canadian and US dollars. Non-interest expenses were higher due largely to increased salaries and benefits, which were partially offset by lower deposit guarantee fee expenses.

Income, before taxes and non-controlling interest in income of trust, was C$3 million lower compared with the fourth quarter of 2005. Total revenue was higher as lower net interest income from a flatter yield curve was offset by increased foreign exchange revenue. Non-interest expenses were higher due largely to increased salaries and benefits and a year-to-date reduction in deposit guarantee fee expenses recorded in the fourth quarter of 2005.

Consolidated Statement of Income (Unaudited)

Figures in C$ millions (except per share amounts)	***31 March 2006***	*31 December 2005*	*31 March 2005*
	Quarter ended		
Interest and dividend income			
Loans	**462**	444	374
Securities	**43**	40	24
Deposits with regulated financial institutions	**58**	52	30
	563	536	428
Interest expense			
Deposits	**291**	261	184
Debentures	**6**	6	7
	297	267	191
Net interest income	**266**	269	237
Non-interest revenue			
Deposit and payment service charges	**21**	22	20
Credit fees	**25**	26	22
Capital market fees	**32**	25	32
Investment administration fees	**24**	22	17
Foreign exchange	**22**	21	17
Trade finance	**6**	6	7
Trading revenue	**2**	1	3
Investment securities gains	**5**	2	7
Securitisation income	**8**	6	8
Other	**11**	10	11
	156	141	144
Total revenue	**422**	410	381
Non-interest expenses			
Salaries and employee benefits	**123**	111	109
Premises and equipment	**29**	27	27
Other	**72**	67	66
	224	205	202
Net operating income before provision for credit losses	**198**	205	179
Provision for credit losses	**6**	6	8
Income before provision and non-controlling interest in income of trust	**192**	199	171
Provision for income taxes	**65**	58	57
Non-controlling interest in income of trust	**7**	6	4
Net income	**120**	135	110
Preferred share dividends	**4**	3	2
Net income attributable to common shares	**116**	132	108
Average common shares outstanding (000)	**488,668**	488,668	488,668
Basic earnings per share (C$)	**0.24**	0.27	0.22

See notes to consolidated financial statements

Consolidated Balance Sheet (Unaudited)

Figures in C$ millions	***At 31 March 2006***	*At 31 December 2005*	*At 31 March 2005*
Assets			
Cash and deposits with Bank of Canada	**374**	409	212
Deposits with regulated financial institutions	**4,808**	5,549	4,923
	5,182	5,958	5,135
Investment securities	**4,254**	2,923	3,085
Trading securities	**1,762**	1,418	1,029
	6,016	4,341	4,114
Assets purchased under reverse repurchase agreements	**2,536**	1,752	1,437
Loans			
– Businesses and government	**16,149**	15,571	14,387
– Residential mortgage	**13,185**	12,865	11,862
– Consumer	**3,427**	3,734	3,465
– Allowance for credit losses	**(325)**	(326)	(343)
	32,436	31,844	29,371
Customers' liability under acceptances	**4,483**	4,002	3,675
Land, buildings and equipment	**100**	103	99
Other assets	**1,574**	1,210	1,145
	6,157	5,315	4,919
Total assets	**52,327**	49,210	44,976
Liabilities and shareholders' equity			
Deposits			
– Regulated financial institutions	**1,994**	1,975	843
– Individuals	**15,809**	15,300	15,111
– Businesses and governments	**22,625**	21,333	19,630
	40,428	38,608	35,584
Acceptances	**4,483**	4,002	3,675
Assets sold under repurchase agreements	**165**	302	61
Other liabilities	**3,605**	2,849	2,752
Non-controlling interest in trust and subsidiary	**430**	430	230
	8,683	7,583	6,718
Subordinated debentures	**563**	423	427
Shareholders' equity			
– Preferred shares	**350**	350	125
– Common shares	**1,125**	1,125	1,125
– Contributed surplus	**188**	187	179
– Retained earnings	**990**	934	818
	2,653	2,596	2,247
Total liabilities and shareholders' equity	**52,327**	49,210	44,976

See notes to consolidated financial statements

Consolidated Statement of Changes in Shareholders’ Equity (Unaudited)

Figures in C$ millions	Quarter ended 31 March 2006	31December 2005	31 March 2005
Preferred shares			
Balance at beginning of period	**350**	175	125
Issued	**–**	175	–
Balance at end of period	**350**	350	125
Common shares			
Balance at beginning and end of period	**1,125**	1,125	1,125
Contributed surplus			
Balance at beginning of period	**187**	184	177
Stock-based compensation	**1**	3	2
Balance at end of period	**188**	187	179
Retained earnings			
Balance at beginning of period	**934**	896	770
Net income for the period	**120**	135	110
Preferred share dividends	**(4)**	(3)	(2)
Common share dividends	**(60)**	(135)	(60)
Capital issue costs	**–**	(3)	–
Other	**–**	44	–
Balance at end of period	**990**	934	818
Total shareholders' equity	**2,653**	2,596	2,247

See notes to consolidated financial statements

Condensed Consolidated Statement of Cash Flows (Unaudited)

Figures in C$ millions	*Quarter ended*		
	31 March 2006	*31 December 2005*	*31 March 2005*
Cash flows provided by/(used in) operating activities			
Net income	**120**	135	110
Trading securities	**(344)**	41	26
Other, net	**477**	(276)	269
	253	(100)	405
Cash flows provided by/(used in) financing activities			
Deposits received	**1,820**	28	1,736
Securities sold (purchased) under repurchase agreements	**(137)**	16	38
Proceeds from issuance of preferred shares	**–**	175	–
Proceeds from issuance of debentures	**200**	–	–
Redemption of debentures	**(60)**	–	–
Dividends paid	**(124)**	(78)	(112)
	1,699	141	1,662
Cash flows (used in)/provided by investing activities			
Loans funded, excluding securitisations	**(1,266)**	(1,256)	(1,710)
Proceeds from loans securitised	**655**	1,597	649
Investment securities (purchased) sold	**(1,331)**	(11)	(1,118)
Securities sold (purchased) under reverse repurchase agreements	**(784)**	69	827
Net change in non-operating deposits with regulated financial institutions	**225**	(51)	(237)
Disposal (acquisition) of land, buildings and equipment	**(2)**	(13)	(2)
	(2,503)	335	(1,591)
Increase in cash and cash equivalents	**(551)**	376	476
Cash and cash equivalents, beginning of period	**5,200**	4,824	4,007
Cash and cash equivalents, end of period	**4,649**	5,200	4,483
Represented by:			
– Cash resources per balance sheet	**5,182**	5,958	5,135
– less non-operating deposits[†]	**(533)**	(758)	(652)
– Cash and cash equivalents, – end of period	**4,649**	5,200	4,483

[†] *Non-operating deposits are comprised primarily of cash that reprices after 90 days and cash restricted for recourse on securitisation transactions.*

See notes to consolidated financial statements

Notes to Consolidated Financial Statements (Unaudited)

(all tabular amounts are in C$ millions)

1. Basis of presentation

These consolidated financial statements should be read in conjunction with the notes to our consolidated financial statements for the year ended 31 December 2005 as set out on pages 39 to 73 of our 2005 Annual Report and Accounts. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) using the same accounting policies and methods of computation as were used for our consolidated financial statements for the year ended 31 December 2005.

2. Allowance for credit losses

A continuity of our allowance for credit losses is as follows:

	Quarter ended		
	31 March 2006	*31 December 2005*	*31 March 2005*
Balance at beginning of period	**326**	337	349
Provision for credit losses	**6**	6	8
Recoveries	**–**	–	1
Write-offs	**(7)**	(17)	(15)
Balance at end of period	**325**	326	343

3. Securitisation

Securitisation activity during the first quarter of 2006 was as follows:

	Residential mortgages	*Personal lines of credit*
Securitised and sold	168	500
Net cash proceeds received	168	487
Retained rights to future excess interest	1	4
Retained servicing liability	1	1
Pre-tax gain on sale	–	3

The key assumptions made at time of sale were (%):

	Residential mortgages	*Personal lines of credit*
Prepayment rate	23.65	100.00
Excess spread	0.45	1.89
Expected credit losses	0.01	0.20
Discount rate	4.83	5.71

Notes to Consolidated Financial Statements (Unaudited) *(continued)*

(all tabular amounts are in C$ millions)

4. Subordinated debentures

On 1 March 2006, we redeemed all of our 7.70 per cent subordinated debentures that mature in 2011, totalling C$60 million, at a redemption price of 100 per cent of the principal amount plus unpaid accrued interest at the redemption date.

On 15 March 2006, we issued C$200 million of subordinated debentures that mature in 2021. Interest at an annual rate of 4.94 per cent is payable half-yearly in arrears until 16 March 2016. Thereafter, interest is payable at an annual rate equal to the 90-day Bankers' Acceptance Rate plus 1.00 per cent, payable quarterly in arrears.

5. Issued and outstanding shares

	At 31 March 2006		*At 31 December 2005*		*At 31 March 2005*	
	Number	***Amount***	*Number*	*Amount*	*Number*	*Amount*
Preferred Shares – Class 1						
– Series A	**–**	**–**	–	–	5,000,000	125
– Series C	**7,000,000**	**175**	7,000,000	175	–	–
– Series D	**7,000,000**	**175**	7,000,000	175	–	–
		350		350		125
Common shares	**488,668,000**	**1,125**	488,668,000	1,125	488,668,000	1,125

6. Stock-based compensation

During the first quarter of 2006, compensation expense totalling C$1 million (first quarter of 2005 – C$2 million) was recorded in respect of awards granted in 2005 and prior. No awards were granted during the first quarter of 2006 or 2005.

7. Employee future benefits

The expense for employee future benefits was as follows:

	Quarter ended		
	31 March 2006	*31 December 2005*	*31 March 2005*
Pension plans – defined benefit	**4**	(1)	2
Pension plans – defined contribution	**3**	3	2
Other benefits	**2**	1	2
	9	3	6

Notes to Consolidated Financial Statements (Unaudited) *(continued)*

8. Customer group segmentation

We report and manage our operations according to the customer group definitions of the HSBC Group.

Prior to 2006, we primarily measured the performance of each customer group based on the net income of the customer group, excluding expenses related to the deposit guarantee. These expenses were previously consolidated and disclosed separately in a customer group entitled "Other". With the termination of the deposit guarantee for new deposits after 30 June 2005, customer group results are now measured including all relevant expenses. As a result, beginning in fiscal 2006, expenses related to the deposit guarantee have been included in non-interest expenses of each customer group. The comparative amounts for 2005 have been restated to conform to the current period's disclosure.

	Quarter ended		
	31 March 2006	*31 December 2005*	*31 March 2005*
Personal Financial Services			
Net interest income	**92**	96	83
Non-interest revenue	**75**	65	71
Total revenue	**167**	161	154
Non-interest expenses	**130**	119	117
Net operating income	**37**	42	37
Provision for credit losses	**5**	3	4
Income before taxes and non-controlling interest in income of trust	**32**	39	33
Provision for income taxes	**10**	11	11
Non-controlling interest in income of trust	**2**	2	1
Net income	**20**	26	21
Average assets	**17,183**	17,355	15,954
Commercial Banking			
Net interest income	**143**	140	127
Non-interest revenue	**49**	48	47
Total revenue	**192**	188	174
Non-interest expenses	**80**	77	70
Non-operating income	**112**	111	104
Provision for credit losses	**1**	3	4
Income before taxes and non-controlling interest in income of trust	**111**	108	100
Provision for income taxes	**38**	31	33
Non-controlling interest in income of trust	**4**	4	2
Net income	**69**	73	65
Average assets	**18,554**	18,356	16,014

Notes to Consolidated Financial Statements (Unaudited) *(continued)*

8. Customer group segmentation (continued)

	Quarter ended		
	31 March 2006	31 December 2005	31 March 2005
Corporate, Investment Banking and Markets			
Net interest income	**31**	33	27
Non-interest revenue	**32**	28	26
Total revenue	**63**	61	53
Non-interest expenses	**14**	9	15
Non-operating income	**49**	52	38
Provision for credit losses	**–**	–	–
Income before taxes and non-controlling interest in income of trust	**49**	52	38
Provision for income taxes	**17**	16	13
Non-controlling interest in income of trust	**1**	–	1
Net income	**31**	36	24
Average assets	**15,249**	13,894	12,212

9. Guarantees, commitments and contingent liabilities

Amounts relating to financial and performance standby letters of credit, and documentary and commercial letters of credit were as follows:

	At 31 March 2006	At 31 December 2005	At 31 March 2005
Financial and performance standby letters of credit	**2,156**	2,235	1,866
Documentary and commercial letters of credit	**467**	516	415
Commitments to extend credit			
– Original term of one year or less	**24,031**	23,768	20,287
– Original term of more than one year	**4,398**	3,702	3,409
Credit and yield enhancement	**42**	32	19
	31,094	30,253	25,996

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